

**Introduced by Senator Perata**

February 21, 2001

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An act to amend Sections 50661.5, 50662.7, 50671.5, and 50671.6 of, and to add Section 50671.7 to, the Health and Safety Code, relating to housing assistance, and making an appropriation therefor.

**LEGISLATIVE COUNSEL'S DIGEST**

SB 444, as introduced, Perata. Disaster loans: forgiveness of interest.

Existing law establishes within the State Treasury the Housing Rehabilitation Loan Fund, a fund continuously appropriated to the Department of Housing and Community Development for, among other purposes, making deferred payment rehabilitation and deferred payment loans. Existing law authorizes deferred payment and predevelopment loans for the purposes of repairing, including reconstructing, owner occupied dwellings, and repairing or refinancing the repair of, and refinancing in conjunction with rehabilitation of rental housing developments, that were damaged or destroyed as a result of a natural disaster resulting in a state of emergency.

This bill would require the department to forgive payment of all interest that has accrued but has not been paid on any loan issued pursuant to the above-described provisions relating to housing that was damaged or destroyed as a result of a natural disaster prior to January 1, 2002, and would provide that no interest may be required on any loans issued pursuant to these provisions on or after that date. By changing the purpose for which continuously appropriated funds are to be expended, this bill would make a appropriation.

Vote: <sup>2</sup>/<sub>3</sub>. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.



*The people of the State of California do enact as follows:*

SECTION 1. Section 50661.5 of the Health and Safety Code is amended to read:

50661.5. (a) There is hereby created in the State Treasury the California Disaster Housing Repair Fund, into which shall be paid all moneys appropriated by the Legislature pursuant to subdivision (b) or transferred pursuant to subdivision (c) for housing repair loans pursuant to Sections 50662.7, 50671.5, and 50671.6. All interest or other increments resulting from the investment of moneys in the California Disaster Housing Repair Fund shall be deposited in the fund, notwithstanding Section 16305.7 of the Government Code. Notwithstanding Section 13340 of the Government Code, all money in that fund is continuously appropriated to the department for the following purposes:

(1) For making deferred payment loans and predevelopment loans pursuant to Sections 50662.7, 50671.5, and 50671.6.

(2) For related administrative expenses of the department.

(3) For related administrative expenses of any entity contracting with the department, pursuant to Sections 50662.7, 50671.5, and 50671.6 in an amount, if any, as determined by the department, to enable the entities to implement a program pursuant to those sections.

(4) For providing loan guarantees for disaster-related loans made by private institutional lending sources.

(b) There shall be paid into the fund the following:

(1) Any moneys appropriated and made available by the Legislature for purposes of the fund.

(2) Any moneys transferred from the Special Fund for Economic Uncertainties prior to July 1, 1996, pursuant to subdivision (c).

(3) Any other moneys which may be made available to the department prior to July 1, 1996, for the purposes of this section from any other source or sources.

(4) The director may authorize the sale of the beneficiary interest of loans made pursuant to Section 50662.7. The proceeds from that sale prior to July 1, 1996, shall be deposited into the California Disaster Housing Repair Fund. Proceeds from that sale after July 1, 1996, shall be deposited in the General Fund.

(c) (1) To the extent that funds are not available, the Department of Housing and Community Development shall submit to the Department of Finance, within 90 days after a disaster, a deficiency request based on a minimum funding level based on a damage survey completed by the Office of Emergency Services and the Federal Emergency Management Agency. The request shall distinguish between owner-occupied housing of one to four units and rental housing of five or more units.

(2) Upon receipt of the deficiency request from the Department of Housing and Community Development pursuant to paragraph (1), the Department of Finance shall make a funding determination and notify the Legislature of the approval or disapproval of the deficiency amount. Any deficiency amount approved shall distinguish between owner-occupied housing of one to four units and rental housing of five or more units.

(3) Any payments made pursuant to this subdivision from funds made available under Section 50671.5 shall be matched by a corresponding and equal payment from funds made available under Section 50671.6, except that, upon the determination of the Director of Finance that one of the two rental repair programs has excess funds, moneys from that fund may be used for either of the other two disaster repair programs.

(d) In the event of a natural disaster, as defined in Section 8680.3 of the Government Code, the Director of Finance may transfer moneys from the Special Fund for Economic Uncertainties established by Section 16418 of the Government Code to the California Disaster Housing Repair Fund, provided the transfer is not made sooner than 30 days after notification in writing of the necessity therefor is provided to the Joint Legislative Budget Committee.

(e) Notwithstanding any other provision of law, on or after July 1, 1996, the unencumbered fund balance and reserves shall be transferred to the Housing Rehabilitation Loan Fund and subsequent income and other resources payable pursuant to Sections 50662.7, 50671.5, and 50671.6, shall be deposited to the Housing Rehabilitation Loan Fund, except that payments of principal ~~and interest~~ on loans issued pursuant to Sections 50662.7, 50671.5, and 50671.6 shall be deposited in the General Fund.

(f) In making funds available to disaster victims pursuant to Sections 50662.7, 50671.5, and 50671.6, the department shall impose a one-year deadline for submission of applications.

(g) Any changes made on or after January 1, 1994, to any program funded by the California Disaster Housing Repair Fund shall not apply to applications submitted on or before December 31, 1993. The department may administer the program in accordance with guidelines until regulations are adopted.

SEC. 2. Section 50662.7 of the Health and Safety Code is amended to read:

50662.7. For the purpose of providing disaster relief to those owners of owner-occupied dwellings that were damaged or destroyed as a result of a natural disaster defined by Section 8680.3 of the Government Code, resulting in a state of emergency proclaimed by the Governor pursuant to Section 8625 of the Government Code, *interest free* financial assistance may be provided to disaster victims as prescribed in this chapter under the following special conditions, ~~which~~ *that* shall prevail over conflicting provisions of this chapter and administrative regulations:

(a) (1) The *interest free* loans shall be provided in any city, county, or city and county proclaimed by the Governor to be in a state of disaster: (A) to persons who do not qualify for loan assistance from an agency of the United States for repair of the damage caused by a natural disaster, (B) to the extent that federally provided or assisted financing may be insufficient to accomplish the necessary repair, and (C) to the extent required to enable the recipient to obtain and afford loan assistance from an agency of the United States to finance the necessary repair.

(2) The *interest free* loans shall be made only to households that are victims of a natural disaster and only to the extent that other federal and state resources, private insurance proceeds, or private institutional lending sources, are not available or do not provide the assistance or coverage needed to rehabilitate or reconstruct their homes.

(3) This subdivision shall not be construed to prevent the processing of a loan application once a person or household has received loan approval from a federal, state, or private institutional lending source, nor shall this subdivision be construed to prevent

1 the funding of short-term loans until other federal, state, or private  
2 loan proceeds become available.

3 (4) In allocating grants and loans, the department shall in no  
4 event provide a loan to a family with an annual income in excess  
5 of 150 percent of statewide median income, adjusted for family  
6 size. This paragraph shall apply to any disaster that occurs on or  
7 after January 18, 1994.

8 (b) (1) The loans shall be for the purpose of repairing,  
9 including reconstructing, dwellings that are owner-occupied or  
10 would be owner-occupied but for the damage caused by the natural  
11 disaster and for rental dwelling units of one to four units. Loan  
12 funds shall be used to fund work necessary to repair damaged  
13 dwellings and to correct serious, life-threatening violations of the  
14 state or local building code or housing standards that are required  
15 to be corrected prior to occupancy, including ensuring compliance  
16 with applicable seismic safety standards and related property  
17 improvements or to finance the reconstruction of dwellings  
18 destroyed as a result of the natural disaster up to a maximum of  
19 fifty thousand dollars (\$50,000) per unit. The department shall  
20 limit the square footage of units repaired or reconstructed using  
21 funds provided pursuant to this section to the predisaster size of the  
22 unit.

23 (2) In the case of manufactured housing or mobilehomes, loan  
24 funds shall be used to bring the manufactured home or  
25 mobilehome into compliance with the standards set forth in  
26 Chapter 4 (commencing with Section 18025) of Part 2 of Division  
27 13.

28 (3) For the purposes of this section:

29 (A) "Owner-occupied dwellings" include single-family units,  
30 attached owner-occupied units, condominiums, townhouses,  
31 cooperatives, and manufactured homes, including mobilehomes.

32 (B) "Rental dwelling of one to four units" includes  
33 single-family units, condominiums, townhouses, cooperatives,  
34 duplexes, and manufactured homes, including mobilehomes.

35 (c) The loan, together with any existing indebtedness  
36 encumbering the secured property, shall not exceed the after-repair  
37 value of the property, except that the department may waive this  
38 limitation in individual cases to ensure, when necessary,  
39 correction of serious, life-threatening violations of the state or  
40 local building code or housing standards, seismic safety standards,

1 and general property improvements relating to these standards  
2 pursuant to subdivision (b).

3 (d) (1) The outstanding balance of a loan provided under this  
4 section, ~~including principal and accrued interest thereon~~, shall be  
5 due and payable, after 30 years or when either of the following  
6 occurs: ~~(A) the~~

7 (A) *The borrower transfers ownership of the rehabilitated*  
8 ~~property, or (B) fails property.~~

9 (B) *Fails to occupy the rehabilitated property as his or her*  
10 *principal place of residence, whichever comes first. For*

11 *For rental dwellings, the term of the loan shall be 20 years.*

12 (2) After the initial recordation of the deed of trust securing the  
13 department's loan, the department shall not subordinate its deed of  
14 trust to additional or other financing except in cases of extreme  
15 hardship necessary to protect the health or safety of the occupants  
16 or to the extent that the total principal of loans senior to the  
17 department's loan is unchanged or decreased and the department's  
18 security interest is not jeopardized, as determined by the  
19 department.

20 (e) The department may make loans directly to borrowers, or  
21 contract for the administration under this section of loans with one  
22 or more entities that it determines to have the necessary experience  
23 to successfully administer the loan program, including, but not  
24 limited to, local public agencies and private organizations. The  
25 department may authorize, under that contract, the payment of  
26 expenses incurred by the entities in administering the loan  
27 program and may prescribe the conditions pursuant to which the  
28 entities shall administer the loans.

29 (f) Sections 50663 and 50668 do not apply to loans made  
30 pursuant to this section.

31 (g) The department may set aside or use funds that are made  
32 available for the purposes of this section for the purpose of curing  
33 or averting an owner's default on the terms of any loan or other  
34 obligation where that default would jeopardize the department's  
35 security in the owner-occupied housing assisted pursuant to this  
36 section. The payment or advance of funds by the department  
37 pursuant to this subdivision shall be exclusively within the  
38 department's discretion, and no person shall be deemed to have  
39 any entitlement to the payment or advance of those funds. The  
40 amount of any funds expended by the department pursuant to this

subdivision shall be added to the loan amount secured by the deed of trust and shall be payable to the department upon demand.

(h) Any rule, policy, or standard of general application employed by the Department of Housing and Community Development in implementing this section shall not be subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

(i) Fund allocations made pursuant to this section shall not be subject to review or approval by the Loan Committee of the Department of Housing and Community Development operating pursuant to Subchapter 1 (commencing with Section 6900) of Chapter 6.5 of Title 25 of the California Code of Regulations.

(j) (1) In order to be eligible for one or more loans pursuant to this section, the borrower shall agree to all of the following conditions:

(A) All buildings shall be connected to their foundation systems as necessary to meet the seismic requirements of the 1973 Edition of the Uniform Building Code of the International Conference of Building Officials in a manner approved by the department, which may include seismic strengthening of foundation cripple walls and affixing or bolting sill plates to the foundation.

(B) All water heaters shall be braced, anchored, or strapped to resist falling or horizontal displacement due to earthquake motion.

(C) Hazard insurance shall be obtained and maintained as required by the department.

(2) As a condition of receipt of assistance under this section, owners of rental dwellings shall agree, in writing, to all of the restrictions set forth in this subdivision.

(3) The loan shall include an amount sufficient to meet the requirements of subparagraphs (A) and (B) of paragraph (1).

(k) Initial rents for rental housing rehabilitated under this section shall not exceed the rent charged immediately prior to the natural disaster. The department may allow for adjustments to the predisaster rents due to cost-of-living increases or increases necessary for debt service.

(l) The department shall adopt regulations establishing terms and conditions upon which repair loans may be made. These regulations shall be made available to the public by the department. ~~The department may set interest rates for individual~~



1 ~~loans for each disaster at a rate that shall not exceed the rate for~~  
2 ~~veterans' home loans established pursuant to Section 987.87 of the~~  
3 ~~Military and Veterans Code on the date the Governor declares a~~  
4 ~~state of emergency for that disaster, plus up to one-half percent for~~  
5 ~~administrative costs not included in the interest rate.— The~~  
6 Department of Housing and Community Development shall  
7 prepare an annual audit of administrative costs for the Department  
8 of Finance. ~~All loans for each disaster shall bear the same interest~~  
9 ~~rate.— The department may also require periodic payments of~~  
10 ~~interest, or principal and interest, or provide incentives for earlier~~  
11 ~~repayment of principal and interest on owner-occupied dwellings.~~  
12 ~~Incentives may include reduction of interest rates to a minimum~~  
13 ~~of 3 percent for repayment that occurs within three years of the~~  
14 ~~closing of the loan.~~

15 (m) Prior to full loan approval, the department may make loans  
16 not exceeding five thousand dollars (\$5,000) per loan to pay for the  
17 costs of predevelopment activity which must be undertaken prior  
18 to making eligible repairs if, in the opinion of the department, the  
19 borrower is unable to pay for these costs in advance of full loan  
20 approval. These loans shall ~~bear interest at the rate of 6 percent~~  
21 ~~simple interest per annum and shall~~ be evidenced by a promissory  
22 note secured by a deed of trust. At the time of full loan approval,  
23 the predevelopment loan shall be canceled, and the principal  
24 amount of the loan ~~and all accrued interest~~ shall be included in the  
25 amount of the full loan and shall be subject to the same ~~interest rate~~  
26 ~~and~~ terms and conditions as the full loan. For purposes of  
27 computing the maximum loan amount, the amount of any  
28 predevelopment loan shall be included.

29 SEC. 3. Section 50671.5 of the Health and Safety Code is  
30 amended to read:

31 50671.5. For the purpose of providing disaster relief to  
32 owners of rental housing and the tenants residing in rental housing  
33 that was damaged or destroyed as a result of a natural disaster as  
34 defined by Section 8680.3 of the Government Code, resulting in  
35 a state of emergency proclaimed by the Governor pursuant to  
36 Section 8625 of the Government Code, *interest free* financial  
37 assistance may be provided to disaster victims as prescribed in this  
38 chapter under the following special conditions, ~~which~~ *that* shall  
39 prevail over conflicting provisions of this chapter and  
40 administrative regulations:



(a) (1) Funds may be used to make *interest free* loans for ~~(A) repair or (B) refinancing~~ either one of the following:

(A) *Repair*.

(B) *Refinancing* in conjunction with repair, of rental housing developments that were damaged or destroyed as a result of the natural disaster. ~~For~~

For purposes of this section, “repair” includes reconstruction.

(2) The loans shall only be made in a city, county, or city and county proclaimed by the Governor to be in a state of disaster to assist rental housing developments that are damaged or destroyed by a natural disaster and only to the extent that other federal and state resources, private insurance proceeds, or private institutional lending sources, are not available or do not provide the assistance or coverage needed to rehabilitate or reconstruct that housing.

(3) The loans may be provided (A) to persons who do not qualify for loan assistance from an agency of the United States for repair of the damage caused by a natural disaster, or, (B) to the extent that federally provided or assisted financing may be insufficient to accomplish the necessary repair or would require rent increases above the rent charged for the units prior to the disaster.

(4) As to damaged rental housing, the loan funds shall be used to correct serious, life-threatening violations of the state or local building code or housing standards which are required to be corrected prior to occupancy, and to bring the property into compliance with seismic safety standards. If reconstruction is precluded on the original project site due to documented soil, geological, or other conditions which cannot be mitigated at a reasonable cost or the cost of the repair or reconstruction would exceed 110 percent of the value after reconstruction, the department may approve reconstruction on a comparable site in the immediate neighborhood. However, loan funds shall not be used for acquisition of real property.

(b) (1) Rental housing developments, for this purpose, shall include, but not be limited to, multifamily rental dwellings, apartments, residential hotels, rental mobilehomes, mobilehome parks, group homes for senior citizens or the disabled, buildings of mixed residential rental and commercial use, and buildings of mixed owner-occupant and rental use, that are made available for permanent residency of tenants. Rental housing developments

1 shall contain five or more units. For buildings of mixed residential  
2 rental and commercial use, funds may be used for the repair of  
3 commercial as well as residential space.

4 (2) To be eligible for funds under this section, the owner of any  
5 rental housing development set forth above, shall have been the  
6 owner of record at the time of the natural disaster.

7 (c) In addition to the other requirements of this chapter, the  
8 department may require terms and conditions as it determines  
9 necessary to meet the needs of the disaster area and its victims, to  
10 ensure the fiscal integrity of the rental housing development, and  
11 to protect the interests of the state. The department shall require  
12 that priority in occupancy in any unit assisted pursuant to this  
13 section shall be given first to occupants of rental units assisted  
14 pursuant to this section who were displaced by the natural disaster  
15 or the resulting repair of the assisted rental units. Second priority  
16 shall be given to other persons who were displaced from housing  
17 as a result of the natural disaster.

18 (d) In allocating funds, the department shall consider the  
19 availability of other resources to assist rental housing and the  
20 occupants of that rental housing and shall give priority to those  
21 applicants in jurisdictions with the greatest housing need resulting  
22 from the disaster and the fewest resources to address those needs.  
23 In allocating funds, the department shall also consider the  
24 availability of program funds and may give first priority to a loan  
25 request for repair only, and second priority to a loan request for  
26 refinancing and repair.

27 (e) ~~(4)~~ The department may waive the maximum loan amounts  
28 and per-unit loan amounts established by regulation as it  
29 determines necessary to serve the disaster victims. Loans made  
30 pursuant to this section for repair shall have a term of up to 20  
31 years. Upon the request of the borrower, the department may  
32 permit repayment of the principal amount of any loan provided  
33 under this section, ~~or of any interest on that loan,~~ before the end  
34 of the loan term. This section shall not be construed to authorize  
35 any deferrals on the payment of principal ~~or interest~~, unless the  
36 department determines that temporary deferral is necessary for  
37 fiscal integrity or to prevent foreclosure. The deferral period may  
38 be extended for an additional 12 months if the extension is  
39 authorized by the director.

1 ~~(2) The department may set interest rates as specified in~~  
2 ~~subdivision (m) of Section 50662.7.~~

3 (f) A loan shall not exceed the combined costs of refinancing  
4 existing indebtedness and repair. However, the total secured debt  
5 in a superior position to the department's loan, plus the  
6 department's loan, shall not exceed 100 percent of the after-repair  
7 value of the property, except that the department may waive this  
8 limitation in individual cases when necessary to ensure correction  
9 of serious, life-threatening violations of the state or local building  
10 code or housing standards ~~which~~ *that* are required to be corrected  
11 prior to occupancy, seismic safety standards, and general property  
12 improvements relating to these standards, pursuant to subdivision  
13 (a).

14 (g) Prior to full loan approval, the department may make loans  
15 not exceeding five thousand dollars (\$5,000) per loan to pay for the  
16 costs of predevelopment activity ~~which~~ *that* must be undertaken  
17 prior to making eligible repairs if, in the opinion of the department,  
18 the borrower is unable to pay for these costs in advance of full loan  
19 approval. These loans shall ~~bear interest at the rate of 6 percent~~  
20 ~~simple interest per annum and shall~~ be evidenced by a promissory  
21 note secured by a deed of trust. At the time of full loan approval,  
22 the predevelopment loan shall be canceled, and the principal  
23 amount of the loan ~~and all accrued interest~~ shall be included in the  
24 amount of the full loan and shall be subject to the same ~~interest rate~~  
25 ~~and~~ terms and conditions as the full loan. For purposes of  
26 computing the maximum loan amount, the amount of the  
27 predevelopment loan shall be included.

28 (h) Tenants of rental housing developments repaired with  
29 assistance provided under this section who are displaced as a result  
30 of either the natural disaster or the repair work, or both the natural  
31 disaster and the subsequent repair work, shall be entitled to  
32 relocation benefits pursuant to, and subject to, the requirements of  
33 Section 7265.3 of the Government Code. Sponsors of assisted  
34 rental housing developments shall be responsible for providing the  
35 benefits and assistance. The costs of the benefits and the assistance  
36 provided to tenants shall be eligible for funding by a loan provided  
37 pursuant to this section. Benefits and assistance provided  
38 hereunder shall not duplicate benefits or assistance for temporary  
39 housing received by tenants from any other public source or from  
40 insurance proceeds.

(i) The department may make *interest free* loans directly to owners of rental housing, or contract for the administration of loans under this section with entities that it determines to have the necessary experience to successfully administer the loan program, including, but not limited to, local public agencies and private organizations. The department may authorize, under that contract, the payment of expenses incurred by the entities in administering the loan program and may prescribe the conditions pursuant to which the entities shall administer the loans.

(j) To the extent that any housing unit or other structure that was damaged or destroyed is reconstructed pursuant to this section with substantially the same number of units, it shall be deemed to be “existing housing” for purposes of subdivision (d) of Section 37001.5.

(k) The department may set aside or use funds that are made available for the purposes of this section for the purpose of curing or averting a housing sponsor’s default on the terms of any loan or other obligation where that default would jeopardize the financial integrity of a rental housing development or the department’s security in the rental housing development assisted pursuant to this section. The payment or advance of funds by the department pursuant to this subdivision shall be exclusively within the department’s discretion, and no person shall be deemed to have any entitlement to the payment or advance of those funds. The amount of any funds expended by the department pursuant to this subdivision shall be added to the loan amount secured by the deed of trust and shall be payable to the department upon demand.

(l) Any rule, policy, or standard of general application employed by the Department of Housing and Community Development in implementing ~~the provisions of~~ this section shall not be subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

(m) The department shall adopt regulations establishing terms and conditions upon which repair loans may be made. These regulations shall be made available to the public by the department.

(n) Fund allocations made pursuant to this section shall not be subject to review or approval by the Local Assistance Loan and Grant Committee of the Department of Housing and Community

Development operating pursuant to Subchapter 1 (commencing with Section 6900) of Chapter 6.5 of Title 25 of the California Code of Regulations.

(o) (1) In order to be eligible for one or more loans pursuant to this section, the borrower shall agree to all of the following:

(A) All buildings shall be connected to the foundation systems except those of unreinforced masonry wall construction as necessary to meet the seismic requirements of the 1973 Edition of the Uniform Building Code of the International Conference of Building Officials in a manner approved by the department, which may include seismic strengthening of foundation cripple walls, and affixing or bolting sill plates to the foundation.

(B) For all buildings of unreinforced masonry wall construction, all repairs and seismic retrofits shall comply with earthquake hazard mitigation programs established pursuant to Chapter 12.2 (commencing with Section 8875) of Division 1 of Title 2 of the Government Code.

(C) All water heaters shall be braced, anchored, or strapped to resist falling or horizontal displacement due to earthquake motion.

(2) The loans shall include an amount sufficient to meet the requirements of paragraph (1).

SEC. 4. Section 50671.6 of the Health and Safety Code is amended to read:

50671.6. For the purpose of preserving or expanding the supply of rental housing affordable to low- and very low-income tenants in cities or counties affected by a natural disaster as defined by Section 8680.3 of the Government Code, resulting in a state of emergency proclaimed by the Governor pursuant to Section 8625 of the Government Code, *interest free* financial assistance may be provided as prescribed in this chapter under the following special conditions, which shall prevail over conflicting provisions of this chapter and administrative regulations:

(a) Funds may be used for the purpose of repair or refinancing in conjunction with rehabilitation of rental housing developments. For purposes of this section, rehabilitation may include reconstruction. The loans shall only be made in a city, county, or city and county proclaimed by the Governor to be in a state of disaster and only when the Director of the Department of Housing and Community Development has determined that the disaster has decreased the supply of low-income rental housing. The loan

1 funds may be used to repair disaster related damage, bring the  
2 housing into compliance with applicable health and safety and  
3 seismic safety standards, and to make property improvements that  
4 are related to that compliance. If reconstruction is precluded on the  
5 original project site due to documented soil, geological, or other  
6 conditions that cannot be mitigated at a reasonable cost, or the cost  
7 of the rehabilitation or reconstruction would exceed 110 percent  
8 of the value after reconstruction, the department may approve  
9 reconstruction on a comparable site in the immediate  
10 neighborhood.

11 (b) (1) Rental housing developments, for this purpose, shall  
12 include, but not be limited to, multifamily rental dwellings,  
13 apartments, residential hotels, mobilehome parks, group homes  
14 for senior citizens or the disabled, buildings of mixed residential  
15 rental and commercial use, and buildings of mixed  
16 owner-occupant and rental use that are made available for  
17 permanent residency of tenants. Rental housing developments  
18 must contain five or more units. For buildings of mixed residential  
19 rental and commercial use, funds may be used for costs directly  
20 attributable to the residential space or the conversion of  
21 commercial space to residential space or a pro-rata share, based on  
22 gross floor area mix at the time of the disaster, if costs cannot be  
23 directly attributable to either commercial or residential space.

24 (2) Eligible cost shall include those costs relating to all of the  
25 following:

26 (A) Refinancing of existing debt to the extent necessary to  
27 reduce debt service to a level consistent with the provision of  
28 affordable rents and the fiscal integrity of the project.

29 (B) Rehabilitation or reconstruction.

30 (C) General property improvements that are necessary to  
31 correct unsafe, unhealthy, or unsanitary conditions, including  
32 renovations and remodeling, including, but not limited to,  
33 remodeling of kitchens and bathrooms, installation of new  
34 appliances, landscaping, and purchase or installation of central air  
35 conditioning.

36 (D) Necessary and related onsite improvements.

37 (E) Reasonable administrative expenses in connection with the  
38 planning and execution of the project, as determined by the  
39 department.

40 (F) Reasonable consulting costs.

1 (G) Rent-up costs.

2 (H) Seismic rehabilitation improvements.

3 (I) Any other costs of rehabilitation authorized by the  
4 department.

5 (3) (A) “Rent-up costs,” as used in this section, means costs  
6 incurred while a unit is on the housing market but not rented to its  
7 first tenant.

8 (B) “Seismic rehabilitation improvements,” as used in this  
9 section, means improvements that are designed to increase seismic  
10 structural safety in accordance with a plan developed by a civil  
11 engineer, a structural engineer, or an architect for a particular  
12 building that has been identified as hazardous by the city or county  
13 in which the building is located in accordance with the criteria  
14 established by the Seismic Safety Commission pursuant to Section  
15 8875.1 of the Government Code or in accordance with a  
16 previously adopted city or county seismic safety ordinance  
17 adopted pursuant to Section 19163.

18 (4) Eligible activities, not fundable under the program, shall  
19 include those costs relating to both of the following:

20 (A) Acquisition of property.

21 (B) Conversion of nonresidential structures to residential use.

22 (c) The loans need not be made in support of the programs  
23 specified in Section 50663.

24 (d) As a condition of assistance under this section, sponsors of  
25 rental housing developments shall agree to the restrictions set forth  
26 in this subdivision with respect to assisted units. The proportion of  
27 assisted units shall at least be equal to the proportion of project  
28 costs financed pursuant to this section to the total  
29 after-rehabilitation value of the rental housing development.

30 (1) For any loan under this section for the rehabilitation of  
31 units, the borrower ~~must~~ shall maintain affordable rent levels for  
32 low-income households, as defined by Section 50079.5, for  
33 assisted units for the term of the loan.

34 (2) “Maintain affordable rent levels,” as used in this section,  
35 means rents may be automatically increased by the sponsor on an  
36 annual basis pursuant to increases in the median income of the  
37 county in which the rental housing development is located. Any  
38 sponsor may appeal to the department for a greater adjustment in  
39 rents necessary to ensure the fiscal integrity of the rental housing  
40 development. If the department does not respond within 60 days,



1 the request shall be deemed approved. A 30-day written notice  
2 shall be given to each eligible household prior to an adjustment in  
3 the amount of rent.

4 (3) (A) Upon prior written approval by the department, a  
5 sponsor may set income limits for incoming tenants at a level  
6 below the limit specified in Section 50079.5. If a tenant's income  
7 exceeds this income limit established by the sponsor, but does not  
8 exceed the limit specified in Section 50079.5, that fact alone shall  
9 neither constitute cause for the tenant's eviction, nor be a violation  
10 of the sponsor's loan agreement. If a tenant's income exceeds the  
11 income limit for a household specified in Section 50079.5, the  
12 tenant shall be required to vacate the assisted unit within six  
13 months from the date of income recertification or notice to the  
14 sponsor of an increase in income over the permissible income  
15 level. That period may be extended by the sponsor for an  
16 additional six-month period in high cost rental areas with low  
17 vacancy rates as determined by the department. Any vacant units  
18 shall be rented to eligible households until the required residency  
19 by eligible households is attained.

20 (B) In the case of limited equity housing cooperatives, the  
21 provisions of this paragraph shall apply, except that tenants whose  
22 incomes, upon recertification, exceed the limit specified in Section  
23 50079.5 shall not be required to vacate their units. Instead, and  
24 upon six months' notice, these tenants shall be required to pay rent  
25 in an amount equal to the market rate rent for comparable units, as  
26 determined by the department. When a tenant's income exceeds  
27 the limit specified in Section 50079.5, the next available  
28 membership share for occupancy in a comparable unit shall be sold  
29 to a household with an income at or below this limit.

30 (4) Any rental housing development assisted pursuant to this  
31 section shall be governed by a regulatory agreement between the  
32 sponsor and the department. The agreement shall, at a minimum,  
33 contain all of the restrictions set forth in this subdivision. The  
34 regulatory agreement shall be recorded, or referenced in a  
35 document recorded, in the office of the county recorder for the  
36 county in which the rental housing development is located. The  
37 regulatory agreement shall be deemed a covenant running with the  
38 land and shall be binding upon the sponsor and any and all  
39 successors-in-interest in case of sale or transfer of the rental



housing development for the original term of the loan, and any extensions thereof, regardless of any prepayment of the loan.

(5) If any unit undergoing rehabilitation or reconstruction pursuant to funding under this section is subject to a currently applicable regulatory agreement between the department and a housing sponsor, that agreement shall prevail over this subdivision.

(6) In addition to the other requirements of this chapter, the department may require terms and conditions as it determines necessary to meet the needs of the disaster area and its victims, to ensure the fiscal integrity of the rental housing development, and to protect the interests of the state. The department shall require that priority in occupancy in any unit assisted pursuant to this section shall be given first to those occupants who were displaced by the natural disaster or the resulting rehabilitation of the assisted rental units. Second priority shall be given to other persons who were displaced from housing as a result of the natural disaster.

(e) (1) When the requirements of subdivision (a) have been met, the department shall announce the availability of funds and accept applications for fund commitments until any deadline established pursuant to subdivision (e) of 50661.5 has expired. Fund commitments shall be based on a ranking of applications, which shall occur at least once for each new disaster. In making this ranking for rental housing developments, priority shall be given to those projects that *meet all of the following criteria*: ~~(A) serve~~

(A) *Serve* the greater number of eligible households, as defined in Section 50105, with the lowest ~~incomes~~; ~~(B) suffered~~ *incomes*.

(B) *Suffered* substantial damage as a result of the natural ~~disaster~~; ~~(C) are~~ *disaster*.

(C) *Are* located in areas where the housing need is great as determined by the department, taking into consideration, among other factors, low vacancy rates, high market rents, long waiting lists for subsidized housing, the stock of substandard housing, and the potential loss of subsidized rental housing to market-rate housing through demolition, foreclosure, or subsidy ~~termination~~; ~~(D) complement~~ *termination*.

(D) *Complement* the implementation of an existing housing ~~program~~; ~~(E) maximize~~ *program*.

(E) *Maximize* private local and other funding ~~source~~; and ~~(F) maximize~~ *source*.

1 (F) *Maximize* long-term benefits for eligible households, as  
2 defined in Sections 50079.5 and 50105.

3 (2) The department shall also evaluate the capability of the  
4 sponsor to rehabilitate, own, and manage the rental housing  
5 development.

6 (f) (1) The department may waive the maximum loan amounts  
7 and per-unit loan amounts established by regulation as it  
8 determines necessary to serve the disaster victims. Loans made  
9 pursuant to this section for rehabilitation, shall have a term of up  
10 to 20 years. Loans made pursuant to this section for rehabilitation,  
11 or refinancing and rehabilitation shall have a term of up to 30  
12 years.

13 (2) Upon request of the sponsor, the department may permit  
14 repayment of a sponsor's loan on the basis of net cash-flow. The  
15 department shall develop a prepayment plan in conjunction with  
16 the sponsor that shall ensure the maintenance of affordable rents  
17 and the fiscal integrity of the rental housing development. As an  
18 incentive to encourage the prepayment of loans, the department  
19 may permit the sponsor to retain one-half of the net cash-flow. The  
20 department shall determine the method for calculating net  
21 cash-flow, which may include a factor for excess debt service  
22 coverage or a return on cash investment to the sponsor.

23 (3) ~~Principal and accumulated interest is due and payable upon~~  
24 ~~completion of the term of the loan. The loan shall bear interest at~~  
25 ~~the rate of three percent per annum on the unpaid principal~~  
26 ~~balance. However, the department shall reduce or eliminate~~  
27 ~~interest payments on a loan for any year or, alternatively, defer~~  
28 ~~interest until the deferred payment loan is repaid, if necessary to~~  
29 ~~provide affordable rents to households of very low income and~~  
30 ~~low income. The ability to pay all or part of the three percent~~  
31 ~~simple annual interest shall not be considered in determining the~~  
32 ~~fiscal integrity of the rental housing development at the time of the~~  
33 ~~rating and ranking of an application.~~

34 (g) When a loan will be used in conjunction with federal or  
35 other state housing assistance or tax credits, and a conflict exists  
36 between the other state or federal program requirements and this  
37 chapter with regard to determining maximum allowable rents, the  
38 requirements of this chapter may be waived only to the extent  
39 necessary to permit the federal or other state financial participation  
40 or eligibility for tax credits.

1 (h) Tenants of rental housing developments rehabilitated with  
2 assistance provided under this section who are displaced as a result  
3 of either the rehabilitation work, or both the natural disaster and  
4 the subsequent rehabilitation work, shall be entitled to relocation  
5 benefits pursuant to, and subject to, the requirements of Section  
6 7265.3 of the Government Code. The costs of the benefits and the  
7 assistance provided to tenants shall be eligible for funding by a  
8 loan provided pursuant to this section. Benefits and assistance  
9 provided hereunder shall not duplicate benefits or assistance for  
10 temporary housing received by tenants from any other public  
11 source or from insurance proceeds.

12 (i) The department may make loans directly to owners of rental  
13 housing, or contract for the administration of loans under this  
14 section with entities that it determines to have the necessary  
15 experience to successfully administer the loan program, including,  
16 but not limited to, local public agencies and private organizations.  
17 The department may authorize, under that contract, the payment  
18 of expenses incurred by the entities in administering the loan  
19 program and may prescribe the conditions pursuant to which the  
20 entities shall administer the loans.

21 (j) To the extent that any housing unit or other structure that was  
22 damaged or destroyed is reconstructed pursuant to this section  
23 with substantially the same number of units, it shall be deemed to  
24 be "existing housing" for purposes of subdivision (d) of Section  
25 37001.5.

26 (k) Any rule, policy, or standard of general application  
27 employed by the Department of Housing and Community  
28 Development in implementing this section shall not be subject to  
29 the requirements of Chapter 3.5 (commencing with Section  
30 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

31 (l) The department shall adopt regulations establishing terms  
32 and conditions upon which repair loans may be made. These  
33 regulations shall be made available to the public by the  
34 department.

35 (m) Fund allocations made pursuant to this section shall not be  
36 subject to review or approval by the Local Assistance Loan and  
37 Grant Committee of the Department of Housing and Community  
38 Development operating pursuant to Subchapter 1 (commencing  
39 with Section 6900) of Chapter 6.5 of Title 25 of the California  
40 Code of Regulations.

(n) (1) In order to be eligible for one or more loans pursuant to this section, the borrower shall agree to all of the following:

(A) All buildings shall be connected to the foundation systems, except those of unreinforced masonry wall construction, as necessary to meet the seismic requirements of the 1973 Edition of the Uniform Building Code of the International Conference of Building Officials in a manner approved by the department, that may include seismic strengthening of foundation cripple walls, and affixing or bolting sill plates to the foundation.

(B) For all buildings of unreinforced masonry wall construction, all repairs and seismic retrofits shall comply with earthquake hazard mitigation programs established pursuant to Chapter 12.2 (commencing with Section 8875) of Division 1 of Title 2 of the Government Code.

(C) All water heaters shall be braced, anchored, or strapped to resist falling or horizontal displacement due to an earthquake motion.

(2) The loans shall include an amount sufficient to meet the requirements of paragraph (1).

SEC. 5. Section 50671.7 is added to the Health and Safety Code, to read:

50671.7. Notwithstanding Sections 50662.7, 50671.5, and 50671.6, the department shall forgive payment of all interest that has accrued but has not been paid on any loan issued pursuant to these sections prior to January 1, 2002, and may not require interest to be due on any loan issued pursuant to these provisions on or after January 1, 2002. This section shall not apply to any loans issued with moneys derived from bond proceeds.